# GENDIS INC.
## Annual Report

For the year ended January 31, 2010

## COMPANY PROFILE

The evolution of Gendis Inc. dates back to 1939 with the founding of General Distributors, an importing distribution firm. The company was incorporated as General Distributors of Canada Ltd. in November 1962, and was subsequently re-named Gendis Inc. in 1983.

Through most of its recent history Gendis had been principally involved in the retail merchandising industry, in consumer and industrial electronics industry through its joint venture relationship with Sony Corp. and held investments in companies operating in the oil & gas industry. In 1995, Gendis sold its interest in the joint venture back to Sony Corp. In 1997, Gendis restructured its retail merchandising operation into one subsidiary, Saan Stores Ltd. Also in 1997, through a Plan or Arrangement, Gendis significantly increased its investment in oil & gas companies and invested in Fort Chicago Energy Partners LP, which commenced construction of a natural gas pipeline. In 1999, Gendis substantially disposed of its investments in oil & gas companies. In 2001, Gendis distributed a majority of its holdings in Fort Chicago to Gendis shareholders. In 2004, Gendis sold its investment in Saan Stores Ltd. and consequently exited the retail general merchandising industry. Since 2004, Gendis Inc. has been active in investment management, and in real estate leasing and management through its division, Gendis Realty.

At year end, Gendis owns publicly traded investments that have a market value of $20.5-million. An investment in Fort Chicago Energy Partners LP comprises $20.0-million of that value. Today, Fort Chicago is principally a natural gas pipeline operator along with natural gas liquids extraction and power generation businesses. Gendis holds its investment in Fort Chicago primarily for its cash distribution and growth potential. Gendis has also invested $5.0-million, at cost, in a private equity company, Osum Oil Sands Corp., that is in the early stage of oil sands development. Gendis is optimistic of the growth potential of this investment.

Gendis owns six real estate properties that are leased to five retail outlets along with four other commercial tenants, and a 379,000 square foot facility complex leased to three industrial tenants. The fair value of the real estate is estimated at $26-million. The major portion of the fair value of the real estate is in the facility complex.

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## ANNUAL MEETING OF SHAREHOLDERS

The Annual Meeting of Shareholders will be held Friday, June 4, 2010 at 11:00 a.m. CDT at the offices of Gendis Inc., 1370 Sony Place, Winnipeg, Manitoba

**GENDIS INC.** Dated April 9, 2010

Management's Discussion & Analysis
For the 4th quarter and year ended January 31, 2010

***NOTICE** – Presentation and Review of the Management's Discussion & Analysis*

*This annual and fourth quarter Management's Discussion and Analysis should be read in conjunction with the audited annual financial statements for the year ended January 31, 2010. Financial information presented in this Management's Discussion and Analysis have been derived from financial statements denominated in Canadian dollars that are prepared in accordance with accounting principles generally accepted in Canada and follow the same accounting policies and methods of application as the audited annual financial statements at January 31, 2010. This Management's Discussion & Analysis has been reviewed and approved by the Board of Directors of Gendis Inc. on April 9, 2010.*

***NOTICE** – Forward-Looking Information*

*This Management's Discussion and Analysis contains forward-looking statements pertaining to:*

- *the earnings and cash flow from the Company's investment in Fort Chicago from Fort Chicago's expected distribution policy;*
- *incurring refundable dividend taxes associated with dividends to be received from Fort Chicago;*
- *potential movements in the exchange-traded share price of Fort Chicago;*
- *the Company's intention to maintain its investment holding in Fort Chicago;*
- *Fort Chicago's and OSUM's business prospects;*
- *sufficiency of the of the Company's financing arrangements to provide liquidity to finance its activities*
- *expectations on credit facility renewals*
- *sufficiency of the Company's collateral to meet credit facility margin requirements for the next year;*
- *and decisions on the selection of accounting policies under IFRS with the corresponding effect those decisions may have on future reported results.*

*These statements are based on certain assumptions and analyses made by the Company in light of its experience and perception of historical trends, current conditions and anticipated future developments. Forward-looking statements should not be read as guarantees of future performance and will not necessarily be accurate indications of whether such performance or results will be achieved. There are risks and uncertainties that could cause actual performance or results to differ materially from those expressed in the forward-looking statements. Factors that could cause such differences include general risks relating to the real estate and investments and the matters described under "Risk Management" in this document and in the notes to the annual financial statements for the year ended January 31, 2010.*

***NOTICE** – CSA National Instrument 52-109 – Certification of Disclosure in Issuer's Annual and Interim Filings*

*The Chief Executive Officer and the Chief Financial Officer have concluded, based on their evaluations, that the Company's disclosure controls and procedures are sufficiently effective to provide reasonable assurance that material information has been disclosed in the Company's annual filings for the year ended January 31, 2010 with the following identified material weaknesses. The Chief Executive Officer and the Chief Financial Officer have concluded, based on their evaluations, that the Company's internal controls over financial reporting are sufficiently effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's Generally Accepted Accounting Principles with the following identified material weaknesses.*

*The Chief Executive Officer and the Chief Financial Officer have identified the following material weaknesses:*

- *§ Effective internal control requires that the functions of authorizing transactions, recording transactions, control over the custody of assets and the account reconciliation process be conducted by different personnel. There are insufficient personnel to accomplish this requirement. The Company has a small staff complement of seven employees and accordingly it is impractical to achieve proper segregation of incompatible functions in all transaction cycles.*
- *§ The Company employs only one individual with the requisite financial skills and competence to determine the appropriate critical accounting estimates in accordance with Generally Accepted Accounting Principles for the*

*compilation of the Company's financial statements. As a result, the calculations and conclusions are not independently verified by other personnel in two critical accounting processes, namely:*

1. *The determination of the accounting and disclosure of the investment balances and income from flow-through entities investments and*
2. *The determination of the accounting for the current and future income tax provision, balances and related ancillary note disclosure.*

*The limited staff complement requires that the Company's senior management actively participate in most aspects of each transaction cycle. Consequently there is an inherent risk of management overriding controls and procedures. The nature of an internal control weakness from the lack of segregation of incompatible functions could be so pervasive that a material error could occur and not be detected on a timely basis in any transaction cycle. Also, the lack of independent verification of the two critical accounting processes noted above could result in a material error in investment balances, income from flow-through entities investments, the current and future income tax provision, balances and related ancillary note disclosure not being detected on a timely basis. No changes were made to internal controls over financial reporting during the year ended January 31, 2010 that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.*

*Potential solutions to these material disclosure controls & procedures weaknesses and internal control weaknesses would ordinarily involve hiring additional staff or engaging independent qualified accountants on a consulting basis. At this time, the Board of Directors has determined that these remedies are not cost effective in relation to the risk of material misstatement.*

*The Chairman, President & Chief Executive Officer and the Vice President, Finance & Comptroller have filed certificates in SEDAR as required under National Instrument 52-109 with guidance on CSA Staff Notice 52-316 regarding assertions on material facts, assertions on the fair presentation of the Company's financial statements, acknowledgements on the design and effectiveness of disclosure controls and procedure, and of internal control over financial reporting.*

### *Additional information and the Annual Information Form*

*The Company's Independent Auditors have reported to shareholders, based on Canadian Generally Accepted Auditing Standards, their opinion on the fair presentation of the Company's financial statements for the year ended January 31, 2010 in accordance with Canadian Generally Accepted Accounting Principles.*

*The Company has adopted an Investment Policy that is included in its Annual Information Form. Additional information about Gendis Inc. and the Company's Annual Information Form are available on SEDAR at www.sedar.com.*

### *Abbreviations*

*As used herein "Gendis" or the "Company" or the "Corporation" refers to Gendis Inc. The Company's property at 1370 Sony Place in Winnipeg, Manitoba is referred to as the "Sony Place facility." The following, which are investments of Gendis Inc., are referenced as follows – "Fort Chicago" refers to Fort Chicago Energy Partners LP; "OSUM" refers to OSUM Oil Sands Corp. Other abbreviations used in this documents are: "IFRS" refers to International Financial Reporting Standards; "IAS" refers to International Accounting Standards; "GAAP" refers to Generally Accepted Accounting Standards.*

### Selected Annual Information for the Last Three Years

| (in thousands of dollars - except per share) | 2010 | 2009 | 2008 |
|---|---|---|---|
| Revenue | 3,935 | 3,311 | 3,162 |
| Net earnings (loss) for the year | 872 | (7,228) | (5,089) |
| Earnings (loss) per share – basic and diluted | 0.06 | (0.51) | (0.35) |
| Total assets | 41,351 | 37,099 | 52,836 |
| Long-term liabilities | 872 | 706 | — |
| Dividends per share | — | — | — |

The variation between years in revenue and earnings are noted as follows:

The increase in revenue from fiscal 2009 to 2010 of $0.6-million is primarily due to $0.9-million from increased tenancy in the Sony Place Facility offset by $0.4-million of reduced share of earnings of Fort Chicago.

The increase in the earnings from fiscal 2009 to 2010 of $8.1-million is primarily due to increased revenue, a reduction to realized losses of investments of $6.0-million incurred in fiscal 2009 with no counterpart of that magnitude in fiscal 2010, an increase in future tax recoveries of $0.3-million from the change in the valuation allowance, a post employment benefit obligation expense reduction of $0.5-million and a reduction in interest expense of $0.6-million, approximately one half from each of reduced borrowings and reduced rates.

The increase in revenue from fiscal 2008 to 2009 of $0.1-million is primarily due to $0.5-million from increased tenancy in the Sony Place Facility offset by $0.5-million of reduced share of earnings of Fort Chicago.

The increase in the loss from fiscal 2008 to 2009 of $2.1-million is primarily due to realized losses net of fair value changes of investments of $2.3-million, a reduction in future tax recoveries of $1.5-million from the change in the valuation allowance, the initial recognition of a post employment benefit obligation of $0.7-million, an increase in expenses in the realty operation of $0.3-million from the increased tenancy, offset by the non recurrence of the loss on sale of a note receivable of $2.2-million in 2008, an increase in revenue of $0.1-million, a reduction in interest expense of $0.1-million from reduced interest rates partially offset by increased borrowing, and a gain on sale of real estate of $0.1-million.

### Summary of Quarterly Results

The following is a summary of information for the eight most recently completed quarters:

| Quarters Ended (in thousands of dollars except per share) | Total Revenue | Net Earnings (Loss) | per Share (1) |
|---|---|---|---|
| January 31, 2010 | 475 | (180) | (0.02) |
| January 31, 2009 | 409 | (658) | (0.05) |
| October 31, 2009 | 1,309 | 555 | 0.04 |
| October 31, 2008 | 1,164 | (5,861) | (0.41) |
| July 31, 2009 | 1,206 | 389 | 0.03 |
| July 31, 2008 | 763 | (1,869) | (0.13) |
| April 30, 2009 | 945 | 108 | 0.01 |
| April 30, 2008 | 975 | 1,160 | 0.08 |

(1) "per Share" is Net Earnings (Loss) per Share, Basic and Diluted

The variation between quarters in revenue and earnings are noted as follows:

The inter-quarter volatility of revenue is primarily from the fluctuation in the share of earnings of Fort Chicago for all quarterly comparisons, and from increased rent revenue from a new tenancy in the Sony Place Facility for the 1st, 2nd and 3rd quarter comparisons. In addition to the effect of revenue volatility on earnings fluctuations, the inter quarter fluctuation of earnings is due to the net change in the market value of investments from stock market

turbulence for all quarterly comparisons, and the recognition of post retirement benefit obligations in the 3rd quarter comparisons. The 4th quarter comparison also includes the effect of a future tax valuation adjustment.

### Corporate operations

In the 4th quarter, investment income was even with the comparable prior year quarter, declining $0.5-million for the year, net of inter-segment revenues, primarily from the share of reduced earnings from Fort Chicago. Expenses were essentially even with the comparable prior year quarter and declining $0.1-million for the year, primarily from reduced payroll costs.

The following table presents purchase and sales activity of the investment portfolio for the quarter and year-to-date:

| | 4th quarter | | year-to-date | |
|---|---|---|---|---|
| (in thousands of dollars) | purchases | sales | purchases | sales |
| Fort Chicago | — | 19 | — | 1,106 |
| Other investments | — | 55 | — | 55 |
| Total | — | 74 | — | 1,161 |

The following table presents the recognized gain (loss) on sale including any provision for loss and the fair value change for the quarter and year-to-date, and the year-end fair value of the investment portfolio of exchange-traded securities:

| | 4th quarter | | year-to-date | | Fair Value |
|---|---|---|---|---|---|
| | Recognized | Fair Value | Recognized | Fair Value | Jan. 31 |
| (in thousands of dollars) | gain (loss) | Change | gain (loss) | Change | 2009 |
| Fort Chicago | 3 | 4,030 | 12 | 6,710 | 19,915 |
| Other investments | (9) | (61) | (9) | 390 | 627 |
| Total | (6) | 3,969 | 3 | 7,100 | 20,542 |
| Investments: | | | | | |
| Available-for-sale | 3 | 4,028 | 12 | 6,703 | 19,968 |
| Held-for-trading | (9) | (59) | (9) | 397 | 574 |
| Total | (6) | 3,969 | 3 | 7,100 | 20,542 |

Fort Chicago provides the Company with a regular source of investment income and cash from regular monthly distributions. The Company's investment in Fort Chicago is a very significant investment. At January 31, 2010, the Company's holdings represents 48% of the Company's total assets, 15% of its revenue and provides 61% of the cash flow to cover cash expenses (i.e. excluding depreciation) and interest. Fort Chicago's earnings from operations declined 40% over the prior year due a significant impairment charge in its 4th quarter, resulting in 70% of its annual distribution being recorded by Gendis as a return of capital rather than as income. Gendis' investment in Fort Chicago is considered an available-for-sale investment. Accordingly, changes in the fair value of the units of Fort Chicago are recorded in Other Comprehensive Income. The fair value price per unit of Fort Chicago has fluctuated from closing bid price lows in the $6.60's in the 1st quarter to highs in the $10.10's at year-end. This is reflected in Other Comprehensive Income swings of a $0.4-million loss measured at the 1st quarter end and a subsequent recovery to reflect a gain of $6.7-million by year-end. Following is a summary of Fort Chicago's financial information:

| (in millions of dollars) | Dec. 31 2009 | Dec. 31 2008 |
|---|---|---|
| Total assets | 2,865 | 3,128 |
| Total liabilities | 2,166 | 2,327 |
| Revenue | 649 | 701 |
| Net earnings | 38 | 61 |
| Other comprehensive income (loss) | (47) | 95 |
| Distributions | 136 | 133 |
| Gendis' proportionate interest | 1.4% | 1.5% |

In Fort Chicago's 4th quarter for this year and last year, Fort Chicago recorded significant impairment charges. The following is Fort Chicago's adjusted earnings calculation that removes the effect of unusual and non-recurring items for the periods ended December 31:

| | Quarter ended | | Year ended | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Adjusted Net Income - in thousands of dollars | 19,222 | 3,156 | 83,539 | 72,104 |
| Per unit – in $ | 0.14 | 0.02 | 0.61 | 0.54 |

Substantially all of the improvement in earnings in the 4th quarter was achieved from Fort Chicago's Natural Gas Liquids ("NGL") business. Substantially all of the improvement in earnings year-over-year was a results of the reduction in the deemed realization of foreign exchange losses last year of $30-million offset by $18-million in reduced revenue for the NGL business. Fort Chicago and its operating businesses maintain prudent capital structures and appear well positioned to withstand the impact associated with the current economic environment. Forecast cash flows remain in excess of distributions. Fort Chicago appears to have sufficient liquidity to meet its forecast capital requirements. Substantially all of Fort Chicago's consolidated debt is long-term with amortization periods that are designed to provide for the orderly repayment over the estimated useful economic life of its assets. A significant portion of the operations and cash flows of Fort Chicago's businesses are denominated in U.S. dollars. Movement of the Canadian dollar relative to the U.S. dollar will change the Canadian value of these assets and cash flows, although this change is partially offset by U.S. denominated debt, which serves as a partial hedge against movements in the exchange rate.

Fort Chicago's pipeline business, which comprises 80% of Fort Chicago's assets and generates 69% of its distributable 2009 cash flows, is underpinned by long-term contracts. The pipeline business is expected to continue to generate stable earnings and cash flows. Fort Chicago continues to advance several construction projects to incrementally build out its existing pipeline and NGL infrastructure to leverage the value of these assets through higher NGL recoveries. The NGL business comprises 6% of Fort Chicago's assets and generates 23% of its distributable 2009 cash flows.

Fort Chicago has announced that it will convert to a corporation before January 1, 2011 to avoid the Specified Investment Flow-through Entity ('SIFT') tax that would become applicable to a portion of Fort Chicago's earnings if it remained in its current status as a flow-through limited partnership. Fort Chicago has also announced that there will be no change in its distribution policy, current set at $1.00 per unit per annum. Fort Chicago also expects amounts available for distribution would remain stable for the next few years. Under a corporate form of organization, Fort Chicago's distributions to its shareholders would be in the form of dividends from its after-tax profit versus the present distribution to unitholders as a share of pre-tax income and a return of capital. Accordingly, Gendis' investment income and cash flow from Fort Chicago is expected to remain stable for the next few years. Gendis, which is a subject corporation for income tax purposes, would incur a refundable dividend tax of 1/3rd of such dividends received. The tax is refundable to the extent of 1/3rd of an eligible dividend paid by Gendis to its shareholders. The announcement by Fort Chicago removes some uncertainty on the impact on earnings and cash flow for Fort Chicago unitholders. Accordingly, it is likely that the quoted market value of the units of Fort Chicago would be affected. The direction of the change and its magnitude has yet to be determined in the longer term. In the short-term, since the year-end to April 9, 2010, the quoted bid price for Fort Chicago units has increased $0.15 per unit, generating an unrealized gain of $0.4-million for Gendis. Except for some nominal sales of Fort Chicago units at opportune prices, Gendis intends to hold its present position in Fort Chicago.

Gendis continues to be very optimistic on the future value of OSUM, Gendis' private equity investment, as OSUM's Contingent Recoverable Resource base and P50 resource base continues to grow in size and increase in value as it approaches commercialization. OSUM has attracted world-class investors such as Warburg Pincus and the Blackstone Group who were lead investors in OSUM's $275 million private equity financing in August 2008, at an average price of $10.50 per share. This was a significant endorsement of OSUM's potential to growth in value in the coming years. This financing has provided OSUM with multi-year working capital to develop its premier assets. The Cold Lake Taiga project is funded to its final investment commitment, has established sizable 'Proved plus Probable Reserves' (2P) and is to commence production in 2014. The Saleski Carbonates JV project is funded through to pilot construction with startup projected for 2011. These projects should provide acceptable returns at current oil prices, and superior returns when oil prices rise above current levels. Gendis' investment in OSUM is at an average cost of $2.42 per share. The most recent $10.50 per OSUM share financing price in August 2008 should only be used as a proxy for fair value of Gendis' per share investment in OSUM. There is no exchange-traded

market for OSUM shares to validate fair value at any future reporting period subsequent to August 2008. Exchange-traded markets in the energy sector and benchmark oil prices have been significantly volatile since then. From time to time, there have been grey-market trades for OSUM shares. A recent sizable trade occurred at $8.00 per share. Gendis holds warrants to purchase 55,000 common share at $9.00 per share. Gendis is considering whether to exercise these warrants before the expiry date of July 26, 2010.

### Realty operations

Realty revenue was even with the comparable prior year 4th quarter, an increase $1.3-million year-to-date, primarily due to the new tenancy in its Sony Place facility complex and an increase from recoverable costs from other tenants. Realty expenses were even with the comparable prior year 4th quarter, an increase of $0.3-million year-to-date due to the new tenancy in its Sony Place facility complex and other cost increases.

At April 9, 2010, the Company owns six real estate properties that are leased to five retail outlets along with four other commercial tenants, and a 379,000 square foot facility complex leased to three industrial tenants. The vacancy rate for the Company's properties is less than 1%.

### Interest expense

The average borrowing in the 4th quarter was $11.4-million compared to $13.2-million for the comparable prior year quarter. The effective interest rate on borrowing for the quarter declined 100 basis points from the prior year quarter. The average borrowing for the year was $12.3-million compared to $17.2-million for the comparable prior year quarter. The effective interest rate on borrowing for the quarter declined 270 basis points from the prior year. For both the 4th quarter and the year, approximately 2/3rds of the decline in interest expense in the comparative quarters is due to the decline in borrowing rates with the remainder due to the decline in average borrowing.

### Income taxes

The income tax recovery of $0.41-million in the 4th quarter and for the year primarily represents an increase to the future tax recovery from an evaluation of the expected realization of non-capital and net capital tax loss carry forwards net of foreign withholding taxes paid on Gendis' share of foreign investment income earned by Fort Chicago and distributed to Gendis.

The Company is in dispute with the Canada Revenue Agency concerning income tax on the sale of shares of an investment in fiscal 1996, which was assessed in fiscal 2002. The Company paid the entire amount of the income taxes and interest in the amount of $28.4-million in that year. The Company has filed a Notice of Objection with the Canada Revenue Agency. Due to uncertainty of the outcome, the Deposit on Income Tax Assessment of $28.4-million was written-off during the year ended January 31, 2007. On October 3, 2007, the Canada Revenue Agency confirmed these re-assessments after the Supreme Court of Canada refused to grant the Company's Leave to Appeal on jurisdictional grounds. The merits of the Company's position had been evaluated in consultation with legal counsel and the Company will continue to pursue the re-assessments on substantive grounds. On December 27, 2007, the Company filed a Notice of Appeal in Manitoba Court of Queen's Bench to void the re-assessments. The Minister of National Revenue for Canada filed a Reply to the Notice of Appeal on February 22, 2008. If the Company is successful in pursuit of this matter, this amount plus additional interest will be refunded and would be recorded in the year of settlement.

### Future Tax Asset

At January 31, 2010, the Company has recognized $3.2-million of future tax asset from expected tax loss carry-forward utilization from the inherent tax savings from the excess of the estimated market value of its real estate properties over the cost basis for tax purposes. At January 31, 2010 there is a potential of an additional $3.2-million of future tax assets that have not been recognized, as the Company is not reasonably assured of recovery as there is no stable earnings history from real estate operations, investment income or investment trading activities to provide reasonable assurance of sufficient taxable earnings in the future. The recognition of a Future Tax Asset associated with tax loss carryforwards is contingent upon a sustainable resumption of earnings from the real estate operations from full occupancy of its properties and from earnings on the generation of gains on investment sales in the future. Volatility in the estimated market value of real estate and the market price of

securities affects the calculation of the unrealized gain that in turn affects the determination of the Future Tax Asset to be recognized.

## Capital Requirements and Liquidity

At April 9, 2010, the Corporate segment has utilized \$10.6-million of its credit facility with its banker with a remaining additional available borrowing capacity of \$1.4-million. The credit facility was renewed in the 2nd quarter of the year. The Company anticipates that the credit facility would be renewed on July 31, 2010 and on an annual basis going forward, generally on the same terms and conditions, which the Company considers adequate for its needs.

The Company has arranged for borrowing by way of a brokerage margin account with its broker, RBC Dominion Securities that provides for a borrowing capacity of 50% of the market value of securities with a bid price in excess of \$5 per share, 35% of securities with a bid price between \$3 and \$5 per share and 70% for securities that have an option market. At April 9, 2010, the borrowing amount under this credit facility was nil with a remaining additional available borrowing capacity of \$0.5-million.

On January 31, 2010, the Company chose not to renew, upon expiration, a credit facility for \$2.1-million on a revolving unsecured basis, from a related party to the Chief Executive Officer of the Company.

A company that is controlled by the Chief Executive Officer of Gendis Inc. continues to provide a \$3.5-million guarantee to the Gendis Inc.'s banker. The Executive Vice President of Gendis Inc. has a significant equity interest in that company. Although the market value of the Company's collateral is sufficient, and is anticipated to remain sufficient for at least the forthcoming year, to meet the margin requirements of the credit facility with the Company's banker, the loan guarantee is expected remain in force until the next renewal date.

On January 15, 2010, the Normal Course Issuer Bid expired and was not renewed by the Company.

At April 9, 2010, as a gauge of liquidity risk, a decline of 10% in the price of all of the Company's securities would result in a reduction in borrowing availability of less than \$0.1-million.

At April 9, 2010, the Company had \$0.1-million in cash, \$20.9-million at a quoted bid price of exchange-traded marketable investments and \$4.8-million at cost in an equity investment as a private placement in a private company that operates in the energy sector.

Cash flow from operations for the Realty segment was \$0.1-million for the 4th quarter and along with cash on hand used to reduce intersegment debt with the Corporate segment by \$0.2-million, which in turn, was used to reduce external debt by \$0.2-million. For the year, cash flow from Realty operations of \$1.2-million and the sale of a property for \$0.3-million was used to reduce intersegment debt with the Corporate segment by \$1.5-million.

At April 9, 2010, all tenants were current in their rent. The Company is not aware of any major tenant that would not be able to meet its rent obligation within the next year. None of the Company's major tenants have a renewal option or lease expiry date before the Company's next fiscal year end, January 31, 2011. The three major tenants in the Sony Place facility have signed on for initial terms of 10 years; two of the tenants with a 5-year and one tenant with a 10-year renewal option. Subsequent to the sale of a vacant property in the 1st quarter of fiscal 2010 to April 9, 2009, the Company has a vacancy rate of less than 1%.

The Corporate segment reduced debt by \$0.2-million in the 4th quarter from the intersegment debt reduction from the Realty segment. For the year, the decrease in borrowing of \$3.1-million was funded from earnings from operations, the return of capital from Fort Chicago distributions, intersegment debt reduction and investment sales of \$1.2-million.

## Risk Management

The Company's activities expose it to a variety of financial risks such as market risk (which includes currency risk, fair value interest rate risk and other price risk), credit risk and liquidity risk. The Company's overall risk management process focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on financial performance. Risk management is conducted by the Company's executive officers under guidance by the Company's Board of Directors. The Company has an informal risk assessment process. Due to the small size of the Company, there is ample opportunity to formally and informally discuss items of importance between the executive officers and the four independent non-executive directors of the Board. Risk concerns are

identified, assessed and courses of action are taken on an ad-hoc basis. Accordingly, written policies for overall risk management or for specific risk areas are considered unnecessary.

(a) Market Risk

(i) Currency Risk

The Company's investment in Fort Chicago is an indirect exposure to currency risk as Fort Chicago has US dollar denominated debt financing. The Company is also indirectly exposed to currency risk on its investments that operate in the oil & gas and mining resource sectors where the functional currency of the resource is denominated in US dollars. The Company's indirect exposure to currency risk is managed in combination with the Company's process in managing other price risk.

(ii) Fair Value Interest Rate Risk

At April 9, 2010, the Company has no significant interest bearing assets, and accordingly, the impact on pre-tax earnings, based on the assumption that the prime rate of interest increased or decreased by 1% with all other variables held constant, is insignificant.

The Company's investment in Fort Chicago is an indirect exposure to fair value interest rate risk. The market price of Fort Chicago is sensitive to interest rate movement as its cash distribution is considered analogous by investors to an interest rate yield and accordingly, the market price of For Chicago could be affected in an inverse relation to an interest rate change. The Company's exposure to fair value interest rate risk is managed in combination with the Company's process in managing other price risk.

The Company is exposed to interest rate risk from its borrowings at variable interest rates. The Company's borrowings consist of banker's acceptances typically issued at 35-day maturities, revolving loans with its banker, a broker's margin account and, until January 31, 2010, a revolving loan with a related party. At April 9, 2010,, if interest rates changed by 100 basis-points, the Company's pre-tax earnings change would be insignificant. The Company considers the level of exposure to interest rate risk to be low and accordingly, the Company does not have a policy to manage interest rate risk from borrowings at variable interest rates.

The Company is exposed to interest rate risk on its employee benefit obligations. At April 9, 2010, a change of 100 basis-points in the discount rate on the pension plan benefit obligations would not be significant and would result in an insignificant change in the obligation. A change of 100 basis-points in the interest rate on the pension plan assets would result in an insignificant change in the pension plan investment earnings. A change of 100 basis-points in the discount rate on post employment life insurance obligations would result in a change in the obligation and a change in earnings by less than $0.1-million.

(iii) Other Price Risk

The Company is exposed to other price risk on its investments that are classified as held-for-trading, as available-for-sale or on a cost basis (private companies). The Company is indirectly exposed to commodity risk on its investments that operate in the oil & gas and mining resource sectors.

To manage other price risk, the Company's Investment Committee monitors market prices of exchange-traded securities throughout the trading day using computer software linked into stock exchanges' stock quote systems. For exchange-traded securities and investments in private companies, the Company's Investment Committee also monitors news wire services, websites of the investee companies and has periodic oral communication with senior officers of the investee companies.

For the Company's exchange-traded investments that are classified as held-for-trading that are traded on the TSX, the impact on pre-tax earnings, based on the assumption that the S&P/TSX equity index had increased or decreased by 10% with all other variables held constant and that all the Company's equity instruments in that particular index moved proportionately, is insignificant. At April 9, 2010, the impact on pre-tax other comprehensive income based on the above assumption for the Company's exchange-traded investments that are classified as available-for-sale would be $2.0-million.

(b) Credit Risk

All investment transactions are executed by brokers with an approved credit rating. The risk of default on investment transactions with counterparties and brokers is considered minimal.

The Company has significant concentrations of credit risk from tenants in its Realty segment. At January 31, 2010, the Company has three tenants that will comprise 69% of consolidated revenue. The Company would be in communication with any tenant that is in arrears to assess collection concerns. One of the tenants (16%) is a publicly traded entity. The Company monitors this tenant's statutory filings to assess credit worthiness. One of the tenants (16%) is a provincial crown Company and accordingly, credit worthiness is not considered a concern. One of the tenants (37%) acts as a distribution agent for products of its two owners who are publicly traded entities operating in the brewing business. When the collection of a receivable is considered impaired, a provision is recorded to establish a net expected collection amount.

The guarantor of Gendis Inc.'s credit facility may relinquish its guarantee with 30 days notice to Gendis Inc.'s banker. Circumstances may also arise for the guarantor to not honour its guarantee. At April 9, 2010, the Company has placed sufficient collateral with its banker and accordingly the guarantee is not required to meet collateral calculation conditions.

(c) Liquidity Risk

The Company's liquidity risk management involves:

(i) monitoring the changes in the exchange-traded market prices of its marketable securities portfolio, which represents approximately 50% of the Company's total assets at the stated carrying values on the balance sheet;
(ii) maintaining an availability of funding through committed credit facilities, which represents approximately 28% of the Company's total assets at the stated carrying values on the balance sheet. The primary credit facility of the Company is with its banker. The Company will endeavour to negotiate a renewal of the terms and conditions before expiry on July 31, 2010;
(iii) investing in securities that provide cash flow from distributions and dividends;
(iv) securing long term leases with tenants for its realty properties.

Contractual Obligations

At January 31, 2010, contractual obligations for automotive and equipment leases are summarized by period as follows:

| (in thousands of dollars) | Total | Less than 1 year | 1-3 years | 4-5 years | After 5 years |
|---|---|---|---|---|---|
| Operating leases | 110 | 45 | 58 | 7 | — |

Outstanding Share Data

At April 9, 2010 there were 13,936,986 Common shares outstanding with a stated capital of $14,650,167.

Critical Accounting Estimates

Income taxes are determined using the asset and liability method of accounting, which recognizes future tax assets and liabilities based on the differences between the accounting and the tax basis of assets and liabilities. Future taxes are measured at the income tax rates expected to apply when the asset is realized or when the liability is settled. Assumptions are required to determine the provision for income taxes, including the resolution of tax disputes. The Company currently has significant differences resulting from non-capital loss carry forwards that have the potential to reduce taxable income in the future. A future tax asset has been recognized by the Company as Management has determined that it is more likely than not that a portion of the non-capital loss carry forwards will be realized. Management exercises judgment in considering future earnings projections. Accordingly, the Company would recognize future tax assets as taxable earnings are achieved in the future.

The carrying value of long-lived assets is assessed for impairment when the undiscounted future cash flows from its use and eventual dispositions are not sufficient to recover the asset's carrying value. An impairment loss is recognized based on the excess of the carrying amount of the real estate asset over its fair value and is recorded in the period in which the impairment occurs. The determination of anticipated cash flows is based in part on assumptions regarding future occupancy, rental rates and capital requirements that could differ materially from actual results in future periods. Fair value is determined based on the greater of applying a capitalization rate to the expected cash flow from the property and an expected sale value, net of selling costs of a vacant property. The

capitalization rate selected would be typical for properties of a similar type and location. Estimates of sales value are obtained from knowledgeable personnel in the real estate industry.

### Recently Issued Accounting Pronouncements

For the year ended January 31, 2010, the Company adopted The Canadian Institute of Chartered Accountants Handbook section 3862 that was amended to improve fair value and liquidity risk disclosures. All financial instruments, that are required to be measured at fair value, are to be categorized into one of three hierarchy levels for disclosure purposes. Each level is based on the transparency of the inputs used to measure the fair values of assets and liabilities. Determination of fair value and the resulting hierarchy requires the use of observable market data whenever available. The classification of a financial instrument in the following hierarchy is based upon the lowest level of input that is significant to the measurement of fair value:

- Level 1 – inputs are unadjusted quoted prices of identical instruments in active markets.
- Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 – inputs used in a valuation technique are not based on observable market data in determining fair values of the instruments.

In February 2008, the Canadian Institute of Chartered Accountants - Accounting Standards Board confirmed that all Canadian publicly accountable enterprises would be required to retrospectively adopt International Financial Reporting Standards. The adoption will be applicable for interim and annual reporting purposes for the Company's fiscal year ending January 31, 2012.

The Company is assessing the impact on accounting policies, data systems, internal controls over financial reporting, disclosure controls and procedures, and business activities such as financing and compensation arrangements during the period leading up to the transition date. The Company has developed and continues to implement its IFRS changeover plan. The changeover plan developed by the Company is a three phase process. The first phase consisted of the performance of a preliminary study which included a project timetable, work plan, estimates of internal and external resource requirements and a summary comparison of Canadian Generally Accepted Accounting Principles and IFRS. The second phase consisted of the development of a project plan, completion of detailed comparisons of Canadian GAAP and IFRS, the development of mock IFRS financial statements and identification of potential system modifications. The third phase consists of integrating any requisite changes to existing disclosure controls and procedures and internal controls over financial reporting and the production of IFRS compliant financial statements. The Company, with the assistance of an external consultant, has completed phase one and is the process of completing phase two.

The accounting policies of the Company are already largely aligned with IFRS in most areas. However, many of the decisions on the initial selection of accounting policies are dependent on the IFRS that are effective at the Company's first annual reporting date, January 31, 2012, and on the IFRS that may be effective subsequent to the first annual reporting date that the Company may consider to adopt early. Accordingly, accounting policy decisions may change over the next two years as IFRS, economic conditions and regulatory requirements evolve. These changes may have a material effect on the IFRS financial statements. Additional information will be provided as the changeover date approaches and accounting policy decisions are finalized.

Adoption of IFRS will have a significant impact on the Company's accounting for, and disclosure of, financial instruments and real estate properties held for lease revenue. Except for financial reporting expertise and training requirements, and the attendant effect on internal control over financial reporting, and disclosure control and procedures issues, the impact over the Company's information technology and data systems, business activities involving debt covenants, capital requirements and compensation arrangements are not expected to be significant. The Company's training of its personnel on IFRS to obtain financial reporting expertise is on-going and progressing for competencies to be in place before the Company's changeover date, February 1, 2011.

There are numerous IFRS exposure drafts that are expected to be finalized into standards over the next two years. One that is critical to the Company is change to IAS 12: Income Taxes. Finalization of the standard was targeted in 2011 but is now delayed. The International Accounting Standards Board is considering a more limited project of the most urgent issues. Accordingly, the Company's decisions on accounting policy on income taxes have not yet been fully assessed.

The issuance in November 2009 of IFRS 9: Financial Instruments with the attendant changes to IFRS 7: Financial Instruments: Disclosure and IAS 39: Financial Instruments: Recognition and Measurement has provided some clarity on decisions for elections on financial instruments under IFRS 1: First Time Adoption of International Financial Reporting Standards.

The fair value changes of the Company's investments in flow-through entities would ordinarily be reported under IFRS in "Profit or Loss through Other Comprehensive Income" as the Company does not hold these investments for trading. The Company expects to elect under IFRS 1 for fair value changes of the Company's investments in flow-through entities to be reported as "Fair Value through Profit or Loss". This election will not result in a difference between Canadian GAAP and IFRS in the total equity of the Company at the transition date, February 1, 2010, or in a future reporting period. However, at the transition date, the Accumulated Other Comprehensive Income of the Company would be eliminated by a reclassification to Retained Earnings. This election may result in significant volatility in reported annual Net Earnings from Operations in any future reporting period. The magnitude of the volatility cannot be determined due to the vagary of the stock markets.

The Company's investment in the equity of a private company has been recorded under Canadian GAAP at cost, as there is not a quoted market price in an active market for the shares. IFRS does not provide a similar measurement principle for investments not quoted in an active market. Rather, IFRS would require the Company to estimate fair value of the investment unless it could not be measured reliably. Fair value will likely be determined using a Level 2 or 3 valuation technique using inputs that are either derived indirectly from other market prices or may not be verifiable from observable market data. At this time, the Company has not determined the fair value of the investment or how the fair value is to be determined at any future date. The Company expects to elect under IFRS 1 to record this investment at the transition date at fair value and to record the fair value change and the associated deferred tax, as "Fair Value through Profit or Loss" in future reporting periods. This election will result in a change in total equity of the Company at the transition date and in future reporting periods. At this time, the magnitude of the change to equity, future tax and equity has not been determined. Indications are that it may be significant. This election may result in significant volatility in reported annual Net Earnings from Operations in any future reporting period. The private company is in the developmental stage in heavy oil extraction. Accordingly, the valuation of the private company is heavily dependant on its success in proving its reserves, the volatility of the price of oil and the volatility of the US currency.

IAS 40: Investment Properties is applicable to the Company's investment properties. There are three choices under IFRS for determining the carrying value of investment properties:

1. acquisition cost less accumulated depreciation as determined under IFRS;
2. elect under IFRS 1 a deemed cost equal to fair value on transition date. The deemed cost becomes the carrying value for determining depreciation charges going forward;
3. elect a revaluation accounting policy resulting in fair value determined at each reporting date.

The Company expects to choose the revaluation accounting policy. At April 9, 2010, the Company's preliminary determination is that the investment properties have a fair value of approximately $26-million, but fair value could be significantly different at the transition date and at any future reporting date. At the transition date, the excess of fair value over the carrying value would be recorded as an increase to equity, net of any deferred tax considerations. Recording investment properties at fair value will introduce significant volatility to the reported value of the asset, deferred tax and equity on the Balance Sheet and to Net Earnings from Operations in any future reporting period. A significant determinant in establishing a fair value of a property is the capitalization rate. The capitalization rate is a function of a risk free rate of return, typically a long tem government bond yield, plus a risk premium associated with the characteristics of the property being value. Both of these functions are subject to volatility. At April 9, 2010, the composite capitalization rate for the Company's properties is 7.7%. A 100 basis-point movement in the capitalization rate could result in a $3-million movement in the fair value of the asset and annual pre-tax earnings.

The associated deferred tax effect of any of the above noted impacts of the reporting under IFRS would be based on a tax rate at each future reporting period. Deferred tax assets would only be recognized to the extent that realization is probable, which is consistent with Canadian GAAP's more likely than not threshold. At April 9, 2010, the Company's future tax rate is 26.5%.

## RESPONSIBILITY FOR FINANCIAL REPORTING

Management of the Corporation is responsible for the consolidated financial statements and all information contained in the Annual Report. The consolidated financial statements are prepared in accordance with accounting principles generally accepted in Canada (GAAP). Significant accounting policies are described in Note 2 to the consolidated financial statements. Management exercised its best judgment in selecting appropriate accounting policies and providing estimates as part of the assurance that transactions are part of the reporting process. Management maintains a system of accounting and administrative controls that provide reasonable assurance that transactions are appropriately authorized, assets safeguarded and financial records maintained, in order to provide relevant, reliable and timely financial information. Management considers financial information presented in the Annual Report to be consistent with the consolidated financial statements.

The Company's Board of Directors has appointed an Audit Committee consisting of three independent directors who are not executive officers or employees of the Corporation. The Board of Directors has delegated responsibility for the oversight of the financial reporting process to the Audit Committee. The Audit Committee meets periodically with management and the independent auditors to review the performance of their respective responsibilities and to discuss accounting policy and financial reporting matters. The Audit Committee assesses the audit plan of the independent auditors, the audit report and the results of the audit findings. The Audit Committee has unrestricted access to the independent auditors to discuss audit and related findings on the integrity of the Corporation's financial reporting process, and the adequacy of the system of accounting and administrative controls. The Audit Committee provides a recommendation to the Board of Directors on the approval of the annual consolidated financial statements, annual Management's Discussion & Analysis and the re-appointment of the independent auditors. The Audit Committee also approves the interim consolidated financial statements and interim Management's Discussion & Analysis.

ALBERT D. COHEN

President, Chief Executive Officer
& Chairman of the Board of Directors

ERNEST B. REINFORT

Vice-President, Finance
& Comptroller

April 9, 2010

## AUDITORS' REPORT TO THE SHAREHOLDERS OF GENDIS INC.

We have audited the consolidated balance sheets of Gendis Inc. as at January 31, 2010 and January 31, 2009 and the consolidated statements of operations, shareholder's equity, comprehensive income (loss) and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at January 31, 2010 and January 31, 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Winnipeg, Manitoba

April 9, 2010

PricewaterhouseCoopers LLP

Chartered Accountants

GENDIS INC.
CONSOLIDATED BALANCE SHEETS
AS AT JANUARY 31, 2010 AND JANUARY 31, 2009

| (in thousands of dollars) | 2010 | 2009 |
|---|---|---|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash | 261 | 199 |
| Receivables | 263 | 291 |
| Income and capital taxes recoverable | 2 | — |
| Prepaid expenses | 40 | 71 |
| | 566 | 561 |
| INVESTMENTS (note 3) | | |
| at fair value | 20,542 | 15,979 |
| at carrying value | 4,946 | 4,946 |
| PROPERTY AND EQUIPMENT (note 4) | 12,125 | 12,881 |
| FUTURE TAX ASSET (note 8) | 3,172 | 2,732 |
| | 41,351 | 37,099 |
| LIABILITIES | | |
| CURRENT LIABILITIES | | |
| Credit facilities (note 5) | 11,398 | 14,491 |
| Payables and accrued liabilities | 879 | 1,119 |
| Income and capital taxes payable | — | 20 |
| | 12,277 | 15,630 |
| POST EMPLOYMENT BENEFIT OBLIGATIONS (note 6) | 872 | 706 |
| COMMITMENTS AND CONTINGENCIES (note 13) | | |
| SHAREHOLDERS' EQUITY | 28,202 | 20,763 |
| | 41,351 | 37,099 |

SIGNED ON BEHALF OF THE BOARD OF DIRECTORS

ALBERT D. COHEN
Director

James E. Cohen

JAMES E. COHEN
Director

GENDIS INC.
CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEARS ENDED JANUARY 31, 2010 AND JANUARY 31, 2009

| (in thousands of dollars, except per share data) | 2010 | 2009 |
|---|---|---|
| REVENUE | | |
| Real estate operating lease rents | 3,333 | 2,197 |
| Investment | 602 | 1,114 |
| | 3,935 | 3,311 |
| EXPENSES | | |
| Property and administrative expenses | 2,951 | 2,892 |
| Amortization of property and equipment | 514 | 457 |
| Interest and other finance expenses | 272 | 841 |
| | 3,737 | 4,190 |
| EARNINGS (LOSS) BEFORE THE UNDERNOTED | 198 | (879) |
| Provision for post employment benefit obligations | (191) | (706) |
| Gain (loss) on sale of investments: | | |
| Held-for-trading | (9) | (5,476) |
| Available-for-sale | 12 | (525) |
| Change in fair value of investments held-for-trading | 397 | 361 |
| Provision for loss on investments available-for-sale | — | (34) |
| Gain on sale of property and equipment | 82 | 95 |
| EARNINGS (LOSS) BEFORE INCOME TAXES | 489 | (7,164) |
| INCOME TAX (PROVISION) RECOVERY (note 8) | | |
| Current | (57) | (199) |
| Future | 440 | 135 |
| Income tax (provision) recovery | 383 | (64) |
| NET EARNINGS (LOSS) FROM OPERATIONS | 872 | (7,228) |
| NET EARNINGS (LOSS) PER SHARE | $0.06 | ($0.51) |

GENDIS INC.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)
FOR THE YEARS ENDED JANUARY 31, 2010 AND JANUARY 31, 2009

| (in thousands of dollars) | 2010 | 2009 |
|---|---|---|
| OTHER COMPREHENSIVE INCOME (LOSS) | | |
| For investments available-for-sale: | | |
| Change in the fair value | 6,703 | (4,664) |
| Gain (loss) on sale | 12 | (525) |
| Provision for loss | — | (34) |
| Transfers to the Statement of Operations: | | |
| Provision for loss | — | 34 |
| Loss (gain) on sale | (12) | 525 |
| Other comprehensive income (loss) | 6,703 | (4,664) |
| Net earnings (loss) from operations | 872 | (7,228) |
| COMPREHENSIVE INCOME (LOSS) | 7,575 | (11,892) |

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED JANUARY 31, 2010 AND JANUARY 31, 2009

| (in thousand of dollars) | Share Capital (note 7) | Retained Earnings | AOCI | Total |
|---|---|---|---|---|
| Balance – January 31, 2008 | 14,995 | 15,809 | 2,217 | 33,021 |
| Net loss | — | (7,228) | (4,664) | (11,892) |
| Shares purchased for cancellation | (199) | (147) | — | (346) |
| Refundable dividend taxes | — | (20) | — | (20) |
| Balance – January 31, 2009 | 14,796 | 8,414 | (2,447) | 20,763 |
| Net earnings | — | 872 | 6,703 | 7,575 |
| Shares purchased for cancellation | (146) | 10 | — | (136) |
| Balance – January 31, 2010 | 14,650 | 9,296 | 4,256 | 28,202 |

AOCI is Accumulated Other Comprehensive Income

GENDIS INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JANUARY 31, 2010 AND JANUARY 31, 2009

| (in thousands of dollars) | 2010 | 2009 |
|---|---|---|
| CHANGES IN CASH POSITION | | |
| By operations | | |
| Net earnings (loss) from operations | 872 | (7,228) |
| Items not affecting cash: | | |
| Amortization of property and equipment | 514 | 457 |
| Gain on sale of property and equipment | (82) | (95) |
| Change in fair value of investments held-for-trading | (397) | (361) |
| Loss (gain) on sale of and provision for loss on investments | (3) | 6,035 |
| Provision for post employment benefit obligations | 191 | 706 |
| Future income taxes | (440) | (135) |
| Cash flow from earnings | 655 | (621) |
| Net decrease (increase) in working capital | (183) | 327 |
| | 472 | (294) |
| By investing activities | | |
| Investments acquired | — | (3,822) |
| Proceeds on sale of investments | 1,161 | 10,150 |
| Reduction to the cost of investments from a return of capital | 1,379 | 1,258 |
| Proceeds from sale of property and equipment | 346 | 346 |
| Expenditures on property and equipment | (22) | (2,931) |
| | 2,864 | 5,001 |
| By financing activities | | |
| Net repayment of credit facilities | (3,093) | (4,287) |
| Payments for post employment benefit obligations | (25) | — |
| Shares purchased for cancellation | (136) | (346) |
| Payment of refundable dividend taxes | (20) | (78) |
| | (3,274) | (4,711) |
| INCREASE (DECREASE) IN CASH | 62 | (4) |
| NET CASH – beginning of year | 199 | 203 |
| NET CASH – end of year | 261 | 199 |
| Supplemental information: | | |
| Interest paid | 266 | 914 |
| Income taxes paid | 77 | 277 |

1. NATURE OF OPERATIONS

The Corporation operates commercial real estate properties and invests in exchange-traded securities and in securities from private companies.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada and are denominated in Canadian currency.

The following are the references for the abbreviated names of the Corporation's investments – "Fort Chicago" refers to Fort Chicago Energy Partners LP; "OSUM" refers to OSUM Oil Sands Corp. "CICA" refers to the Canadian Institute of Chartered Accountants. "IFRS" refers to International Financial Reporting Standards.

(b) Change in Accounting Policy and Presentation Standards

During the year ended January 31, 2010, the Corporation adopted CICA Handbook section 3862 which was amended to improve fair value and liquidity risk disclosures. All financial instruments, that are required to be measured at fair value, are to be categorized into one of three hierarchy levels for disclosure purposes. Each level is based on the transparency of the inputs used to measure the fair values of assets and liabilities. Determination of fair value and the resulting hierarchy requires the use of observable market data whenever available. The classification of a financial instrument in the following hierarchy is based upon the lowest level of input that is significant to the measurement of fair value:

- Level 1 – inputs are unadjusted quoted prices of identical instruments in active markets.
- Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 – inputs used in a valuation technique are not based on observable market data in determining fair values of the instruments.

CICA Handbook Section 1506, "Accounting Changes" was amended to exclude from its scope changes in accounting policies upon the complete replacement of an entity's primary basis of accounting. As a result, the Corporation is no longer required to disclose the progress of its implementation of IFRS in the notes to the consolidated financial statements.

(c) Principles of Consolidation

The consolidated financial statements include the accounts of 3440869 Canada Inc., operating as Gendis Financial, and Gendis Realty Inc., both wholly owned subsidiaries of the Corporation.

(d) Earnings per Share

Basic earnings per share are calculated using the daily weighted average number of shares outstanding during the respective fiscal years.

(e) Financial Instruments

All financial instruments are included in the consolidated balance sheet and are measured at fair value except loans and receivables and other financial liabilities which are measured at amortized cost, and private equity investments which are measured at cost as fair values cannot be reliably determined. Held-for-trading financial instruments are recorded at cost and are subsequently measured at fair value. The Corporation's financial instruments are classified as follows:

- Held-for-trading - cash and exchange traded investments except for investments in flow-through entities
- Loans and receivables - accounts receivable
- Available-for-sale – investments in flow-through entities and OSUM
- Other financial liabilities – credit facilities and accounts payable

(f) Measurement Uncertainty

The preparation of financial statements in accordance with generally accepted accounting principles requires the Corporation to make estimates and assumptions that affect reported amounts of assets and liabilities, revenue and expenses, and the disclosure of contingencies. Future events could alter such estimates in the near future.

(g) Investments

The Corporation's investment in the flow-through entities are designated as investments available-for-sale as the principal objective in holding these investments is for income and cash flow and not for gains on trading. These investments are recorded at fair value on the Balance Sheet with fair value changes recorded as Other Comprehensive Income (Loss). Cash distributions are recorded as investment income in the Statement of Operations. The excess of cash distributions over the proportionate share of earnings of the investment, if any, is recorded as a reduction to the cost of the investment as a return of capital.

Private placement investments have been designated as investments available-for-sale and carried at cost, as fair values cannot be reliably determined as there is no active market for these securities.

The remaining portfolio of exchange-traded investments has been designated as held-for-trading. These investments are recorded at fair value on the Balance Sheet with fair value changes recorded in the Statement of Operations.

Purchases and sales of exchange-traded securities are recorded on the trade date. Transaction costs are expensed in the period incurred.

(h) Property and Equipment and Amortization

Property and equipment are recorded at the lower of cost less accumulated amortization and the net recoverable amount.

Amortization is provided on a straight-line basis over the remaining estimated useful life at the following annual rates:

| | |
|---|---|
| Property: | |
| Buildings | 3% |
| Parking lot | 5% |
| Leasing costs | 10% to 20% |
| Equipment | 7% |

The carrying value of property and equipment is assessed for impairment when the undiscounted future cash flows from its use and eventual dispositions are not sufficient to recover the asset's carrying value. An impairment loss is recognized based on the excess of the carrying amount of the real estate asset over its fair value and is recorded in the period in which the impairment occurs. The determination of anticipated cash flows is based in part on assumptions regarding future occupancy, rental rates and capital requirements that could differ materially from actual results in future periods. Fair value is determined based on the greater of applying a capitalization rate to the expected cash flow from the property and an expected sale value, net of selling costs of the property. The capitalization rate selected would be typical for properties of a similar type and location. Estimates of sales value are obtained from knowledgeable personnel in the real estate industry.

(i) Pension Plans

The Corporation maintains a defined contribution pension plan and until December 31, 2009, an employee contributory defined benefit pension plan. Until December 31, 2009, all employees who meet certain eligibility requirements must participate in one of pension plans. On December 31, 2009, the contributory defined benefit pension plan accrual of service benefits ceased. On January 1, 2010, all employees who meet certain eligibility requirements must participate in the defined contribution pension plan.

For the defined benefit plan, for the year ended January 31, 2009, pension expense was determined using the projected benefit method pro rated on service, market interest rates and management's best estimates on expected plan investment performance, salary escalation and retirement ages of plan members. A quoted market value is used to value plan assets for the purposes of calculating the expected return on plan assets. Pension expense is determined using the projected benefit method pro rated on service, market interest

rates and retirement ages of plan members. Cumulative unrecognized net actuarial gains and losses were recognized in pension expense in each year.

For the defined contribution plan, pension expense is the Corporation's contribution to the plan.

(j) Post employment benefit obligation for eligible retired employees

The Corporation has an obligation to provide a death benefit to eligible retired employees of the Corporation and the Corporation's former subsidiaries who retired prior to December 10, 2004 and who also met eligibility requirements. To be eligible, the retired employee had to continue with an employee paid declining insurance coverage for 5 years subsequent to retirement. The Corporation records the obligation as the present value of the benefit using a discount interest rate that match the timing of the expected benefit cash flows.

(k) Future Income Taxes

The Corporation utilizes the liability method of accounting for income taxes under which future income tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts and the tax basis of assets and liabilities. Future income tax assets and liabilities are measured using substantively enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is recognized in earnings in the period that includes the enactment date. Future income tax assets are recognized to the extent that realization is considered more likely than not.

(l) Revenue Recognition

Investment income includes dividends and distributions from flow-through entities net of a return of capital, if any, and interest. Dividends and distributions from flow-through entities net of a return of capital are recognized when the Corporation's right to receive payment has been established. Interest income is recognized using the effective interest method.

Real estate rental revenue includes base rent, management charges, percentage participating rents and recoveries of operating expenses, including property taxes. Base rent is recognized on a straight-line basis over the term of the lease. When incentives are provided to tenants, the cost of the incentive is recorded as a reduction to rental revenue on a straight-line basis over the term of the lease. Management charges are recognized in the period in which the service is rendered. Percentage participating rents are recognized when specified sales targets have been met. Recoveries of operating expenses are recognized in the period in which the expense has been incurred.

## 3. INVESTMENTS

| | Fair Value | |
|---|---|---|
| | 2010 | 2009 |
| Available-for-sale: | | |
| Flow-through entities: | | |
| Fort Chicago – 1,915 units (2009 – 2,057 units) | 19,915 | 15,674 |
| Other equity investments | 53 | 64 |
| Held-for-trading: | | |
| Other equity investments | 574 | 241 |
| Total exchange-traded investments | 20,542 | 15,979 |

| | Cost | |
|---|---|---|
| | 2010 | 2009 |
| Private placement - Equity investment, available-for-sale: | | |
| OSUM – 2,047 shares (2009 – 2,047 shares) | 4,946 | 4,946 |

4. PROPERTY AND EQUIPMENT

| | Cost | | Accumulated amortization | | Net carrying value | |
|---|---|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| Land | 2,034 | 2,265 | — | — | 2,034 | 2,265 |
| Buildings & other property | 19,288 | 19,445 | 9,267 | 8,918 | 10,021 | 10,527 |
| Equipment | 72 | 72 | 45 | 34 | 27 | 38 |
| Property & equipment held for operating lease rental | 21,394 | 21,782 | 9,312 | 8,952 | 12,082 | 12,830 |
| Other equipment | 463 | 455 | 420 | 404 | 43 | 51 |
| | 21,857 | 22,237 | 9,732 | 9,356 | 12,125 | 12,881 |

5. CREDIT FACILITIES

| | Borrowing balance | | Remaining borrowing availability | | Carrying value of collateral | |
|---|---|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| Banker's acceptances (a) | 10,998 | 12,291 | | | | |
| Bank demand loan (a) | 400 | 100 | | | | |
| Total for bank borrowing | 11,398 | 12,391 | 600 | 1,627 | 19,260 | 15,025 |
| Broker's margin account (b) | — | — | 465 | 369 | 1,282 | 954 |
| Brosco Fund Limited (c) | — | 2,100 | — | — | — | — |
| | 11,398 | 14,491 | 1,065 | 1,996 | 20,542 | 15,979 |

(a) The Corporation has a revolving credit facility with its banker, The Bank of Nova Scotia, that provides for a borrowing capacity of 70% (2009 - 70%) of the market value of marketable securities, namely Fort Chicago, lodged as collateral. For additional collateral, 1338823 Alberta ULC, a company that the Chief Executive Officer of Gendis Inc. controls, has provided a $3.5-million guarantee to Gendis Inc.'s banker. The credit facility expires on July 31, 2010. Access to the credit facility may be by direct loan or by banker's acceptance of the Corporation's promissory note. The interest rate on direct loans is the prime rate plus 0.75% (2009 - the prime rate plus 0.15%) as established from time to time by the bank. At January 31, 2010, the interest rate was 3.0% (2009 – 3.15%). The fee on banker's acceptances is 2.25% (2009 – 1.05%). The interest rate on promissory notes is determined by the prevailing market conditions. At January 31, 2010, the interest rate was 0.35% (2009 – 1.3%).

(b) The Corporation has arranged for borrowing by way of a brokerage margin account with a broker that provides for a borrowing capacity ranging from 25% to 70% of the market value of marketable securities eligible as collateral in the Corporation's account with the broker. The borrowing capacity rate is dependant on the price per share of a particular security and whether the security has an option market. The interest rate is the prime rate plus a factor on a sliding scale based on the volume of the borrowing. At January 31, 2010, the interest rate was 4.25% (2009 – 4.75%).

(c) The Corporation had arranged to borrow, on a revolving unsecured basis from Brosco Fund Limited, a company controlled by the Corporation's Chief Executive Officer, up to $2.1-million until January 31, 2010, with interest at the prime rate as established by the Corporation's banker from time to time. At January 31, 2010, the interest rate was 2.25% (2009 – 3.0%). During the year ended January 31, 2010, interest paid to Brosco Fund Limited was $35,000 (2009 - $48,000). At January 31, 2010, this credit facility was terminated.

6. POST EMPLOYMENT BENEFIT OBLIGATIONS

(a) PENSION PLAN

Effective December 31, 2009, the accrual of service benefits for the defined benefit pension plan ceased and the plan will be wound up. The accrued benefit obligations for pensioners were transferred to a life insurance carrier through the purchase of life annuities. Effective January 1, 2010, former members of the defined benefit pension plan who are current employees became members of the Corporation's defined contribution pension plan. Assets equal to the value of the accrued benefit obligation for the defined benefit plan members are to be transferred to the Corporation's defined contribution pension plan upon approval by regulatory authorities.

(i) Pension Plan Net Assets

| Pension Plan Net Assets | 2010 | 2009 |
|---|---|---|
| Quoted market value – beginning of year | 1,853 | 1,916 |
| Investment income | 2 | 49 |
| Expenses | (24) | (11) |
| Employee contributions | 6 | 11 |
| Employer contributions | 32 | 31 |
| Annuitized pensioner benefit payments | (1,331) | — |
| Benefits, refund of contributions and administrative expenses | (349) | (143) |
| Quoted market value – end of year | 189 | 1,853 |

| Investment Categories of Pension Plan Assets | 2010 | 2009 |
|---|---|---|
| Cash and other current net assets | 100% | 100% |

(ii) Pension Plan Benefit Obligations

| Pension Plan Benefit Obligations | 2010 | 2009 |
|---|---|---|
| Accrued benefit obligation – beginning of year | 1,811 | 1,903 |
| Accrued interest on benefits | 67 | 92 |
| Accrued benefits | 39 | 42 |
| Benefits and refund of contributions | (349) | (143) |
| Annuitized pensioner benefit payments | (1,291) | — |
| Change in assumptions in discount rate and rate of compensation increase | (122) | (112) |
| Experience loss and administrative expenses | — | 29 |
| Accrued benefit obligation – end of year | 155 | 1,811 |

The most recent actuarial valuation of accumulated pension benefits was made as at December 31, 2008 and extrapolated to January 31, 2010.

(iii) Significant actuarial assumptions in measuring accrued benefit obligations

| Significant actuarial assumptions in measuring accrued benefit obligations | 2010 | 2009 |
|---|---|---|
| Discount rate | 4.45% | 4.60% |
| Expected long-term rate of return on pension plan assets | — | 5.50% |
| Rate of compensation increase | — | 3.50% |

(iv) Accrued Pension Asset

| Accrued Pension Asset | 2010 | 2009 |
|---|---|---|
| Pension Plan surplus at quoted market values | 34 | 42 |
| Valuation allowance | (34) | (42) |
| Accrued pension asset | — | — |

The valuation allowance represents the amount of surplus not recognized on the Corporation's Balance Sheet.

(v) Calculation of Pension Expense

| Calculation of Pension Expense | 2010 | 2009 |
|---|---|---|
| Accrued benefits | 39 | 42 |
| Employee contributions | (6) | (11) |
| Accrued interest on benefits | 67 | 92 |
| Investment income | (2) | (49) |
| Expenses | 24 | 11 |
| Change in assumption | (122) | (112) |
| Experience loss and administrative expenses | — | 29 |
| Change in valuation allowance | (8) | 29 |
| Defined benefit pension plan | (8) | 31 |
| Defined contribution pension plan | 10 | 27 |
| Total pension expense | 2 | 58 |

(b) POST EMPLOYMENT DEATH BENEFIT FOR ELIGIBLE RETIRED EMPLOYEES

The Corporation records the obligation as the present value of the volume of the benefit using a discount interest rate of 5.6% (2009 - 7.7%).

| Accrued benefit obligation | 2010 | 2009 |
|---|---|---|
| Beginning of year | 706 | — |
| Accrued benefits | — | 706 |
| Accrued interest on benefits | 191 | — |
| Benefits paid | (25) | — |
| End of year | 872 | 706 |

7. CAPITAL STOCK

(a) Authorized - The Corporation is authorized to issue an unlimited number of common shares.

(b) Number of Common shares issued

| Number of Common shares issued | 2010 | 2009 |
|---|---|---|
| Beginning of year | 14,075,386 | 14,264,986 |
| less shares purchased for cancellation under a Normal Issuer Course Bid | 138,400 | 189,600 |
| End of year | 13,936,986 | 14,075,386 |

During the year ended January 31, 2010, under Normal Course Issuer Bids, 138,400 (2009 – 189,600) common shares were purchased for cancellation for $136,000 (2009 - $346,000). The Normal Course Issuer Bid expired on January 15, 2010.

(c) At January 31, 2010, refundable dividend tax on hand was $632,000 (2009 – $632,000).

(d) Net earnings (loss) from operations per share

| Net earnings (loss) from operations per share | 2010 | 2009 |
|---|---|---|
| Numerator – Net earnings (loss) from operations for the year | 872 | (7,228) |
| Denominator – Weighted average number of shares outstanding ('000's) | 14,002 | 14,147 |

8. INCOME TAXES

(a) Income taxes on earnings (losses) vary from the amounts that would be computed by applying the combined federal and provincial statutory income tax rates to the earnings (losses) before income tax. The following is a reconciliation of the combined statutory income tax to the effective income tax:

| | 2010 | 2009 |
|---|---|---|
| Statutory income taxes at 31.0% (2009 – 31.0%) | 131 | (2,221) |
| Non-deductible or taxable portion of capital gains or losses, investment income & limitation of deductible amounts | 182 | 272 |
| Change in income tax rates | (44) | 365 |
| Foreign withholding taxes | 57 | 199 |
| Change in valuation allowance and other items | (709) | 1,449 |
| Income tax provision (recovery) | (383) | 64 |

(b) At January 31, 2010, the Corporation has net capital losses of $4.6-million that may be applied against taxable capital gains indefinitely in the future. The Corporation also has $13.9-million of non-capital losses that are subject to expiry as follows:

| Expiry date | Non capital loss |
|---|---|
| 2014 | 2,642 |
| 2015 | 37 |
| 2026 | 700 |
| 2027 | 519 |
| 2028 | 1,843 |
| 2029 | 7,463 |
| 2030 | 652 |

(c)

| Future income tax asset | 2010 | 2009 |
|---|---|---|
| Non capital losses | 3,660 | 3,973 |
| Capital losses | 1,223 | 1,177 |
| Property and equipment | 553 | 619 |
| Investments | 611 | 1,477 |
| Other items | 363 | 344 |
| | 6,410 | 7,590 |
| Valuation allowance | (3,238) | (4,858) |
| | 3,172 | 2,732 |

9. RISK MANAGEMENT

The Corporation's activities expose it to a variety of financial risks such as market risk (which includes currency risk, fair value interest rate risk and other price risk), credit risk and liquidity risk. The Corporation's overall risk management process focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on financial performance. Risk management is conducted by the Corporation's executive officers under guidance by the Corporation's Board of Directors. The Corporation has an informal risk assessment process. Due to the small size of the Corporation, there is ample opportunity to formally and informally discuss items of importance between the executive officers and the four independent non-executive directors of the Board. Risk concerns are identified, assessed and courses of action are taken on an ad-hoc basis. Accordingly, written policies for overall risk management or for specific risk areas are considered unnecessary.

(a) Market Risk

(i) Currency risk

The Corporations is not exposed to significant currency risk.

(ii) Fair Value Interest Rate Risk

At January 31, 2010, the Corporation has no significant interest bearing assets, and accordingly, the impact on pre-tax earnings, based on the assumption that the prime rate of interest increased or decreased by 100 basis-points with all other variables held constant, is insignificant.

The Corporation is exposed to interest rate risk from its borrowings at variable interest rates. The Corporation's borrowings consist of banker's acceptances typically issued at 35-day maturities, revolving loans with its banker, a broker's margin account and, until January 31, 2010, a revolving loan with a related party. At January 31, 2010, if interest rates changed by 100 basis-points, the Corporation's pre-tax earnings change would be insignificant. The Corporation considers the level of exposure to interest rate risk to be low and accordingly, the Corporation does not have a policy to manage interest rate risk from borrowings at variable interest rates.

The Corporation is exposed to interest rate risk on its employee benefit obligations. For the pension plans, a change of 100 basis-points in the discount rate would result in an insignificant change in the obligations and an insignificant change in the investment earnings on the pension plan assets. For post employment life insurance obligations, a change of 100 basis-points in the discount rate would result in a change in the obligation and a change in the Corporations' pre-tax earnings by less than $0.1-million.

(iii) Other Price Risk

The Corporation is exposed to other price risk on its investments that are classified as held-for-trading and as available-for-sale.

To manage other price risk, the Corporation's Investment Committee monitors market prices of exchange-traded securities throughout the trading day using computer software linked into stock exchanges' stock quote systems. For exchange-traded securities and investments in private companies, the Corporation's Investment Committee also monitors news wire services, websites of the investee companies and has periodic oral communication with senior officers of the investee companies.

For the Corporation's exchange-traded investments that are classified as held-for-trading that are traded on the TSX, the impact on pre-tax earnings, based on the assumption that the S&P/TSX equity index had increased or decreased by 10% with all other variables held constant and that all the Corporation's equity instruments in that particular index moved proportionately, is insignificant. The impact on pre-tax other comprehensive income based on the above assumption for the Corporation's exchange-traded investments that are classified as available-for-sale is $2.0-million.

(b) Credit Risk

All investment transactions are executed by brokers with an approved credit rating. The risk of default on investment transactions with counterparties and brokers is considered minimal.

The Corporation has significant concentrations of credit risk from tenants in its Realty segment. The Corporation has three tenants that will comprise 69% of consolidated revenue. The Corporation would be in communication with any tenant that is in arrears to assess collection concerns. One of the tenants (16%) is a publicly traded entity. The Corporation monitors this tenant's statutory filings to assess credit worthiness. One of the tenants (16%) is a provincial crown corporation and accordingly, credit worthiness is not considered a concern. One of the tenants (37%) acts as a distribution agent for products of its two owners who are publicly traded entities operating in the brewing business. When the collection of a receivable is considered impaired, a provision is recorded to establish a net expected collection amount.

The guarantor of Gendis Inc.'s credit facility may relinquish its guarantee with 30 days notice to Gendis Inc.'s banker. Circumstances may also arise for the guarantor to not honour its guarantee. At January 31, 2010, the Corporation has placed sufficient collateral with its banker and accordingly the guarantee is not required to meet collateral conditions.

(c) Liquidity Risk

The Corporation's liquidity risk management involves:

(i) monitoring the changes in the exchange-traded market prices of its marketable securities portfolio, which represents approximately 50% of the Corporation's total assets at the stated carrying values on the balance sheet;

(ii) maintaining an availability of funding through committed credit facilities, which represents approximately 28% of the Corporation's total assets at the stated carrying values on the balance sheet. The primary credit facility of the Corporation is with its banker. The Corporation will endeavour to negotiate a renewal of the terms and conditions before expiry on July 31, 2010;

(iii) investing in securities that provide cash flow from distributions and dividends;

(iv) securing long term leases with tenants for its realty properties.

The borrowing capacity of the Corporation's credit facilities with its banker is 70% of the market value of the marketable security, units of Fort Chicago, lodged as collateral and a $3.5-million guarantee by a related company. The maximum borrowing capacity with its banker is $12-million. Borrowing by way of a brokerage margin account provides for a borrowing capacity of 25% to 70% of the market value of other marketable securities eligible as collateral in the Corporation's account with the broker. The borrowing capacity rate is dependant on the price per share of a particular security and whether the security has an option market. The Corporation had also arranged to borrow up to $2.1-million on a revolving unsecured basis from Brosco Fund Limited, a company controlled by the Corporation's Chief Executive Officer, until January 31, 2010. At January 31, 2010, this credit facility was terminated.

The Corporation has maintained a substantial core holding of the investment in Fort Chicago. Fort Chicago provides the Corporation with cash flow from regular monthly distributions that cover approximately 61% the Corporation's operating cash expenses (i.e. excluding amortization) and interest. As cash is required to settle liabilities, the Corporation's policy is to fund the settlement from cash flow from operations, then, if cash flow is insufficient, to borrow against available credit lines or sell marketable securities.

## 10. FINANCIAL INSTRUMENTS

(a)

| Categories | Held-for-trading | Loans/ receivables | Available-for-sale | Other payables | Total carrying value | Fair value |
|---|---|---|---|---|---|---|
| Assets | | | | | | |
| Cash | 261 | — | — | — | 261 | 261 |
| Receivables | — | 190 | — | — | 190 | 190 |
| Investments | | | | | | |
| Exchange-traded | 574 | — | 19,968 | — | 20,542 | 20,542 |
| Private equity | — | — | 4,946 | — | 4,946 | — |
| Liabilities | | | | | | |
| Credit facilities | — | — | — | 11,398 | 11,398 | 11,398 |
| Payable | — | — | — | 90 | 90 | 90 |

(b) Fair Value Hierarchy

The classification of a financial instrument is based upon the lowest level of input that is significant to the measurement of fair value according to the following hierarchy:

- Level 1 – inputs are unadjusted quoted prices of identical instruments in active markets.
- Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 – inputs used in a valuation technique are not based on observable market data in determining fair values of the instruments.

The fair value of all exchange-traded investments, that are classified as held-for-trading or as available-for-sale, is determined by using unadjusted quoted bid price in an active exchange-traded market. The carrying value of receivables, payables and the credit facility approximates fair values due to their short-term maturity. Private equity investments are carried at cost, as fair values cannot be reliably determined.

The financial instruments measured at fair value in the balance sheet at January 31, 2010, are classified as follows using the fair value hierarchy described in Note 2:

| Financial asset or liability | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Cash | 261 | — | — | 261 |
| Investments | | | | |
| Available-for-sale | 19,968 | — | — | 19,968 |
| Held-for-trading | 574 | — | — | 574 |
| Credit facility | 11,398 | — | — | 11,398 |

11. SEGMENT INFORMATION

The Corporation has identified two reportable segments - Realty and Corporate. At January 31, 2010, the Realty segment consists of five (2009 – six) commercial retail properties with an area for lease of 69,000 (2009 - 78,000) sq. ft. and one facility complex of 379,000 sq. ft. At January 31, 2010 less than 1% (2009 – 3%) of the total leasable area was vacant. The Corporate segment is primarily involved in investing in equity securities, sourcing external capital to meet the Corporation's capital requirements and providing capital and management services to the Realty Segment. All revenues and operating expenses pertain exclusively to Canada. Intersegment revenue and expense is rent, management fees and interest.

| | Year Ended | Realty | Corporate | Intersegment Elimination | Total |
|---|---|---|---|---|---|
| Revenue | 2010 | 3,394 | 974 | (433) | 3,935 |
| | 2009 | 2,257 | 1,711 | (657) | 3,311 |
| Expenses | 2010 | 1,635 | 1,497 | (181) | 2,951 |
| | 2009 | 1,436 | 1,637 | (181) | 2,892 |
| Amortization | 2010 | 505 | 9 | — | 514 |
| | 2009 | 438 | 19 | — | 457 |
| Interest & other finance expense | 2010 | 252 | 272 | (252) | 272 |
| | 2009 | 476 | 841 | (476) | 841 |
| Post employment benefit obligations | 2010 | — | 191 | — | 191 |
| | 2009 | — | 706 | — | 706 |
| Gain (loss) | 2010 | 82 | 3 | — | 85 |
| | 2009 | 95 | (6,035) | — | (5,940) |
| Change in fair value of investments held-for-trading | 2010 | — | 397 | — | 397 |
| | 2009 | — | 361 | — | 361 |
| Income tax recovery (provision) | 2010 | (65) | 448 | — | 383 |
| | 2009 | (220) | 156 | — | (64) |
| Net earnings (loss) from operations for the year | 2010 | 1,019 | (147) | — | 872 |
| | 2009 | (218) | (7,010) | — | (7,228) |
| Expenditures on property and equipment | 2010 | 21 | 1 | — | 22 |
| | 2009 | 2,915 | 16 | — | 2,931 |
| Total assets | 2010 | 12,770 | 37,464 | (8,883) | 41,351 |
| | 2009 | 13,599 | 33,434 | (9,934) | 37,099 |

"Gain (loss)" is the gain (loss) on sale of investments, gain (loss) on sale of property & equipment and provision for loss on investments.

12. CAPITAL MANAGEMENT

The Corporation defines its capital to be the aggregate of its shareholders' equity and its credit facilities. The Corporation's Corporate segment manages the overall capital of the organization, including sourcing, collateral encumbrances and allocations of capital to the other business unit, the Realty segment. Capital for the Realty segment is reset annually to establish inter-segment debt at 70% of total assets to mirror what Management considers as a typical debt financing for commercial real estate ventures.

The Corporation's objectives for capital management are to maintain credit facilities to support the level of asset investment to generate income and capital appreciation; to support the Corporation's share price on the stock exchange by buying back shares through a normal course issuer bid process when prices are substantially below a value ascribed by the Corporation's Chief Executive Officer, and establishing a dividend policy.

The Corporation has complied with externally imposed capital requirements during the years ended January 31, 2010 and January 31, 2009. The externally imposed capital requirements primarily consist of ensuring the margin threshold has not been exceeded and that the lender has received quarterly and annual financial statements on a timely basis. To meet margin requirements, market prices of the collateralized securities are monitored throughout the day. If the margin threshold is anticipated to be exceeded, the loan is repaid by sourcing funds from the Corporation's other credit facilities or from proceeds from selling securities.

The Board of Directors reviews and sets the maximum borrowing levels on an ad-hoc basis as liquidity requirements and investment buying opportunities arise. At January 31, 2010, the maximum amount of borrowing for investment purposes is set at $20-million.

13. COMMITMENTS AND CONTINGENCIES

(a) Minimum lease payments and other commitments are as follows:

| Year ending January | |
|---|---|
| 2011 | 45 |
| 2012 | 40 |
| 2013 | 18 |
| 2014 | 7 |
| thereafter | — |

(b) During the year ended January 26, 2002, the Corporation received Notices of Re-assessment levying additional income taxes and interest on the sale by the Corporation of shares of Sony of Canada Ltd. in 1995. The Corporation paid the entire amount of the income taxes and interest in the amount of $28.4-million in that year. The Corporation has filed a Notice of Objection with the Canada Revenue Agency. Due to uncertainty of the outcome, the Deposit on Income Tax Assessment of $28.4-million was written-off during the year ended January 31, 2007. On October 3, 2007, the Canada Revenue Agency confirmed these re-assessments after the Supreme Court of Canada refused to grant the Corporation's Leave to Appeal on jurisdictional grounds. The merits of the Corporation's position have been evaluated in consultation with legal counsel and the Corporation will continue to pursue the re-assessments on substantive grounds. On December 27, 2007, the Corporation filed a Notice of Appeal in Manitoba Court of Queen's Bench to void the re-assessments. The Minister of National Revenue for Canada filed a Reply to the Notice of Appeal on February 22, 2008. Examinations for discovery have been held and, due to further documentary production, further Examinations for Discovery are scheduled. If the Corporation is successful in pursuit of this matter, this amount plus additional interest will be refunded and would be recorded in the year of settlement.

(c) In connection with the disposition of the investment of a former subsidiary of the Corporation and real estate assets, the Corporation has provided customary representations and warranties that range in duration. In addition, as is customary, the Corporation has agreed to indemnify the buyers of certain assets in respect of certain liabilities pertaining to events occurring prior to the respective sales relating to taxation, environmental, litigation and other matters. The Corporation is unable to estimate the maximum potential liability for these indemnifications as the underlying agreements often do not specify a maximum amount and the amounts are dependent upon the outcome of future contingent events, the nature and likelihood of which cannot be determined.

(d) Subsequent to the Corporation selling its investment in Saan Stores Ltd. on December 16, 2004, Saan Stores Ltd. filed for creditor protection under the Companies' Creditor Arrangements Act and subsequent to that, obtained a stay of proceedings under the Bankruptcy and Insolvency Act. On March 17, 2005, a buying agent and importer to Saan Stores Ltd., filed a Statement of Claim in the Ontario Superior Court of Justice for $18-million against the Corporation and certain of its officers and directors. The buying agent and importer allege to have suffered damages by reason of wrongful and oppressive conduct. The supplier also alleges misrepresentation and breach of fiduciary duties. In a Decision released December 29, 2005, the Ontario Superior Court of Justice found that Ontario was not a convenient forum for the hearing of this matter. The buying agent and importer have commenced proceedings in the Manitoba Court of Queen's Bench. The Statement of Claim and the Statement of Defence have been filed and the Corporation has filed a Notice of Summary Judgment to have the claim dismissed.

On April 21, 2005, two suppliers to Saan Stores Ltd. served a Statement of Claim in Manitoba Court of Queen's Bench that named the Corporation and its directors as defendants, for $1.1-million and $1.3-million respectively for amounts said to be owed and unpaid by a former subsidiary of the Corporation. The suppliers also claim general damages and punitive damages, and damages arising from alleged misrepresentation and breach of fiduciary duties. On December 13, 2005, the Manitoba Court of Queen's Bench ordered that the law firm acting for the two suppliers be removed as solicitors of record for the plaintiffs in these proceedings. The two suppliers appealed the decision to the Manitoba Court of Appeal which subsequently upheld the lower court's decision. The claimant retained new lawyers. The Corporation filed a Statement of Defence on January 30, 2007.

On May 15, 2008, a Statement of Claim in the Ontario Superior Court of Justice was served by one of the landlords against the Corporation's subsidiary, Gendis Realty Inc., seeking $0.5-million in account of rent and occupancy charges at a location occupied by Saan Stores Ltd. A Statement of Defence has been filed. Examinations for discovery have been held.

The Corporation considers that these claims are without merit and accordingly, a provision for settlement has not been recorded. The Corporation is also involved in various other legal matters. The resolution of these other matters is not expected to have a material adverse effect on the Corporation's financial position, results of operations or cash flows.

(e) The Corporation has indemnified its current and former directors and officers to the extent permitted by law against any and all charges, costs, expenses, amounts paid in settlement and damages incurred by the directors and officers as a result of any lawsuit or any other judicial, administrative or investigative proceeding in which the directors and officers are sued as result of their service. These indemnification claims will be subject to any statutory or other legal limitation period. The nature of such indemnification prevents the Corporation from making a reasonable estimate of the maximum potential amount it could be required to pay to counter parties. For claims for the period prior to January 31, 2005, the Corporation has $15-million in directors' and officers' liability insurance coverage. For claims for the period from January 31, 2005 to January 28, 2006, the Corporation has $1-million in directors' and officers' liability insurance coverage. For claims subsequent to January 28, 2006, the Corporation decided to self-insure.

# CORPORATE & SHAREHOLDER INFORMATION

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<td>

GENDIS INC. BOARD OF DIRECTORS

Albert D. Cohen, O.C., LL.D<br>Chairman, President and Chief Executive Officer<br>Gendis Inc.

James E. Cohen<br>Executive Vice-President<br>Gendis Inc.

Robert M. Chipman<br>Corporate Director

Jerry L. Gray, Ph. D<br>Dean Emeritus, I.H. Asper School of Business<br>University of Manitoba

Lawrence O. Pollard<br>Chairman<br>Pollard Banknote Limited

Gordon B. Webster, FCA<br>Corporate Director

GENDIS INC. CORPORATE OFFICERS

Albert D. Cohen, O.C., LL.D<br>Chairman, President and Chief Executive Officer

James E. Cohen<br>Executive Vice-President

N. Paul Cloutier<br>Vice-President, Secretary & General Counsel

Ernest B. Reinfort, CA<br>Vice-President, Finance & Comptroller

</td>
<td>

SHAREHOLDER INFORMATION

Corporate Head Office<br>1370 Sony Place<br>Winnipeg, Manitoba<br>R3T 1N5

Registrar & Transfer Agent<br>CIBC Mellon Trust<br>Vancouver, Calgary, Toronto, Montreal, Halifax<br>Web site: www.cibcmellon.com

Auditors<br>PricewaterhouseCoopers LLP<br>Suite 2300<br>One Lombard Place<br>Winnipeg, Manitoba<br>R3B 0X6

Banker<br>The Bank of Nova Scotia

Exchange Listing<br>Toronto Stock Exchange<br>Common shares of the Company trade under the symbol: GDS

Investor Relations<br>1370 Sony Place<br>Winnipeg, Manitoba<br>R3T 1N5<br>E-mail: finance@gendis.ca<br>Web site: www.gendis.ca

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